Venturetek International Limited

5th Annual Report

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Directors and Officers

Robert A. Wisener
Chairman, and Chairman Wisener and Partners Company Limited

Michael V. Holt
Vice Chairman and Chairman Ventek Limited, and President Interail Incorporated

Jeremy N. Kendall
President

Donald E. Loeb
Executive Vice President and Secretary

Bruce M. Westwood
Vice President, and President PoP Shoppes International, Inc. and subsidiaries

Other Officers

Donald W. S. Rutherford
Vice President, Finance and Treasurer

Directors

F. Martin Crispo
Vice President and Treasurer for Canada National Life Assurance Company of Canada

David M. Dunlap
President, Simcoe Beverages Inc., and Director Hollinger Mines Limited

H. Anthony Hampson
President, Canada Development Corporation

George A. Minden
President, Windsor Arms Hotel Limited, Toronto

D. C. Morrison
Executive Vice President, Canada Development Corporation

Allan F. Waters
President, CHUM Ltd.

Michael D. Young
Director, Gordon Securities Limited

Bankers

The Royal Bank of Canada
20 King Street West, Toronto

Auditors

Coopers & Lybrand
Toronto

Legal Counsel

Day, Wilson, Campbell
Toronto

Venturetek International Limited

47 Colborne Street
Toronto, Ontario M5E 1E3

Annual Meeting to be held on Wednesday, the 10th day of July, 1974 at 4:00 o'clock in the afternoon (Toronto time) at the Quebec and British Columbia Rooms, The Royal York Hotel, Toronto, Ontario.

Contents

Report to the Shareholders

We are pleased to report that in the nine-month period ended December 31, 1973 Venturetek achieved a consolidated net profit of $200,000. In addition to this being Venturetek's first consolidated profit, more significant is the fact that it represents an improvement of more than $2 million over the loss of $1.9 million in the year ended March 31, 1973. As you will remember Venturetek changed its reporting period to the calendar year and, in accordance with the requirements of the Canadian Institute of Chartered Accountants, is now presenting its results consolidated with those of its subsidiary companies.

Sales for the nine-month period ended December 31, 1973 were $17.8 million representing an increase of 73% over the corresponding period in 1972. Gross profit increased to 32% of sales from 19% of sales in the same corresponding period.

In reviewing the company's results it is important to realize that Venturetek finances companies at the conceptual stage and expects to incur substantial losses during the first few years of product development, market entry and the building of an organization. The majority of our investments have passed this stage and can be expected to contribute substantial earnings in 1974 and thereafter.

The unaudited consolidated results for the five months ended May 31, 1974 show sales of $12 million and net profits of $400,000. These profits were achieved in spite of the fact that two of the companies have budgeted losses in the first half due to the seasonal nature of their business. We fully expect this rate of earnings to increase during the balance of the year to give Venturetek a profit which will be most satisfying to both shareholders and management.

Since the last report Venturetek has increased its equity in all of the underlying investments except General Computer Systems. No new investments were made in this period because management had decided to concentrate all its efforts on making the existing companies profitable. In 1974 each member of the Venturetek group of companies should be profitable.

With Venturetek's investments projecting sales of $45 million in 1974, the management and the board recognized that Venturetek was quickly becoming an operating conglomerate yet also recognized that the success of Venturetek lay in maintaining a unique approach to venture capital. After examining various alternatives, the Board has confirmed the company's policy of concentrating on venture capital.

In order to continue to provide management input to the underlying companies and to actively pursue venture capital opportunities, the staff of Venturetek has been expanded with the addition of D. W. S. Rutherford, P.Eng., CA as Vice-President, Finance and Treasurer, and G. L. Strickler, P.Eng., MBA, as Manager, Marketing Services.

Jeremy N. Kendall, president, Venturetek International Limited (seated) and Donald E. Loeb, executive vice president and secretary of the company.

Report on Investments

In the body of this report is a brief illustrated description of each of the companies and their products. In this section we wish to review their progress.

Conat Industries Limited

During 1973 Conat completed the development of the Envirotron and established distribution throughout Canada. Patents have been granted for Canada and the U.S.A. for the Envirotron Mark IV. Both the Envirotron Mark IV and the newly developed system called Envirotron Mark II (which includes only air conditioning and heating) have received CSA approval.

Due to the energy crisis there has been considerable interest in the blue flame oil development and the company is expanding its development program jointly with a number of major national firms.

Conat expects to reach sales of approximately $1.7 million in 1974, up from $66,000 in 1973 and the company should have its first profitable year in 1974. The company has initiated a detailed study of the U.S. market with the intention of establishing distribution in the U.S. before the end of 1974.

General Computer Systems Inc.

GCS has experienced growth pains in 1973 as a result of an enormous increase in sales and a lack of financial planning. The company continues to operate profitably but is suffering from restricted working capital. Venturetek owns less than 4% of GCS and intends to dispose of this investment as it no longer fits our investment criteria.

Gestalt International Limited (formerly Hobrough Limited)

Operating results for the year ended December 31, 1973 show a major improvement over previous years and for the first time the company generated a positive cash flow. Gestalt reported a net loss of $365,000 compared to $509,000 in the previous year.

At the end of December, 1973 Gestalt acquired Northway Survey Corporation Limited, Canada's largest mapping company with plants in Dartmouth, Toronto, Winnipeg and Vancouver. Early in 1974 Gestalt acquired a second mapping company, Survair Limited, with plants in Ottawa and Trinidad. Both of these companies operate internationally in the fields of mapping, resource analysis and geophysical exploration and both are profitable.

The combined operations should have sales of over $7 million and a substantial profit for 1974.

The joint venture established in Los Angeles with Teledyne Inc. is now operating profitably and has a six-month backlog. A second joint venture company has been negotiated with The Plessey Company Limited of the U.K. and will be located in Southern Ireland. A number of other joint ventures are under discussion.

Early in 1974 the company completed the development of the GPM-2, an instrument which produces contours simultaneously with orthophotos. The GPM-2 is unique, well protected by patents and, because of the cost savings, is expected to have a major impact on mapping methods in the coming years. The enthusiastic support provided by the Federal Government for this development has been a major factor in its success.

Hermes Electronics Limited

The management of Hermes successfully turned around the company in 1973 from a consolidated loss of $1.2 million in 1972 to a profit of $227,000 after deferred taxes and extraordinary items. Sales were 18% higher than the previous year and represent an increase of over 200% since 1970. The year-end backlog was in excess of $15 million and 1974 sales are expected to increase by 40% with at least a corresponding improvement in profits.

The growth in sales has created severe space problems and to

This map of the world shows principal locations in which Venturetek investments have plants, offices, representatives or services.

accommodate immediate needs, senior management and related service personnel were relocated in a new office building. The company is studying future growth opportunities and expects to construct a new plant in the Halifax area in 1975 with the assistance of local government.

Hermes has recently formed a U.S. subsidiary which is located at Cape Canaveral, Florida. The U.S. company will engage in light manufacturing and final assembly and will provide purchasing and expediting services for the Hermes group. Presence of an operating U.S. subsidiary is expected to have significant impact on Hermes' ability to market in the U.S.A.

The company has made an unsolicited proposal to the Federal Government for a major program for an ocean monitoring system, which fits well into the declared Oceans Policy and supports Canada's position at the forthcoming international Law-of-the-Sea Conference. It makes use of Hermes' unique technology in buoy design and in transmission of data from buoys to shore. The company is encouraged by the reception it has received for the proposal.

PoP Shoppes International Inc.

The performance of PoP Shoppes has been outstanding, particularly since Venturetek acquired control in August 1972. For the year ended January 31, 1974 the company achieved an after tax profit of $646,000 compared to $97,000 in the previous period and earnings are expected to almost double in the current year.

During the year PoP Shoppes purchased a number of its franchised operations which contributed substantially to the reported profits. As previously reported, PoP Shoppes of Alberta was purchased in July 1973; subsequently PoP Shoppes, Saskatchewan with plants in Saskatoon and Regina, and PoP Shoppes, Toronto with two plants, became fully owned subsidiaries of PoP Shoppes of Canada. As a result of these acquisitions, PoP Shoppes now owns ten factory stores.

The major disappointment in 1973 was the inability of Neonex Beverages to meet its licence commitments in California, and its future commitments in Texas, Australia and Hawaii. The agreement was terminated in February 1974 at which time Neonex had opened one factory store and had two factory stores ready to open. PoP Shoppes purchased these operations and advantageously relicensed the territory of the San Joaquin Valley which included the existing plants. The new licensee has subsequently opened the two plants and has one further plant under construction.

PoP Shoppes plans to open a further 13 plants in 1974 and is continuing to expand the markets of existing plants through establishment of satellite stores.

Sugar is the major cost ingredient in soft drinks. As the price of sugar has soared over the last year, the whole industry has adjusted prices to cover its increasing costs. While PoP Shoppes has been forced to increase the price of its products, it has been able to maintain its competitive price advantage.

A public offering of PoP Shoppes' shares was planned for the Spring of 1974, but due to poor market conditions this underwriting has been postponed indefinitely and alternative long-term financing has been arranged.

Ventek Computer Systems Limited.
Ventek Limited

Ventek reported a loss of $138,000 for the nine months ended December 31st, 1973 before the provision of $141,000 in interest to Venturetek. This compared to a loss of $797,000 for the previous fiscal year before provision of $155,000 in interest to Venturetek. In the first five months of 1974 the company has earned $400,000 and expects this rate of earnings to be maintained throughout the year.

Sales in the nine-month period of $2.8 million represented an increase of almost 300% over the previous year. Sales in the first five months of 1974 were $3.3 million and are expected to exceed $8 million for the year.

To date the deteriorating economic situation in the U.K. has not adversely affected the company, in fact the rate of new orders has been accelerating. Ventek presently has a backlog in excess of $10 million from a wide variety of major U.K. companies.

In order to accommodate this expansion, the marketing, software and administrative staff have been relocated in new offices separate from the plant and four new sales offices have been opened.

The data terminal market which is the fastest growing section of the world computer market, is forecast to grow 700% between now and 1982, and the intelligent terminal section of this market is forecast to grow 12 times during this period. Ventek has firmly established itself in the U.K. as a major supplier in the data terminal and intelligent terminal market and is a growing factor in the business systems market.

Interail Incorporated

Interail is a joint venture with Tops-on-Line Services Inc., a subsidiary of Southern Pacific Railway Inc. and was formed to sell major U.S. railways the terminal system developed by Ventek for British Rail. Interail is based in San Francisco and is presently negotiating multi-million dollar contracts with a number of U.S. railways, with major contracts expected to be signed by the end of the summer.

New Shareholders

During the year the management of Venturetek were pleased to welcome The Mitsubishi Bank, Ltd. of Tokyo, Mitsubishi Canada Limited, The Dai-Ichi Kangyo Bank, Ltd. of Tokyo and the Henderson Trust of the U.K. as new shareholders in Venturetek. These new shareholders reflect the growing international participation of the Venturetek group, and have already been extremely helpful to Venturetek.

Also during 1973, the Manufacturers Life Insurance Company substantially increased its position in Venturetek to become the largest institutional shareholder after the Canada Development Corporation.

General

While management is concerned about the general state of the world economies, we believe that the Venturetek group of companies is well prepared to withstand a possible economic downturn. In addition we expect that the current shortage of risk capital will provide unusual investment opportunities in the next few years and we intend to maintain sufficient liquidity to allow Venturetek to continue to participate actively in the venture capital field.

There are now over two thousand people in the Venturetek group and management would like to express its appreciation for their dedication and excellent performance in the past year.

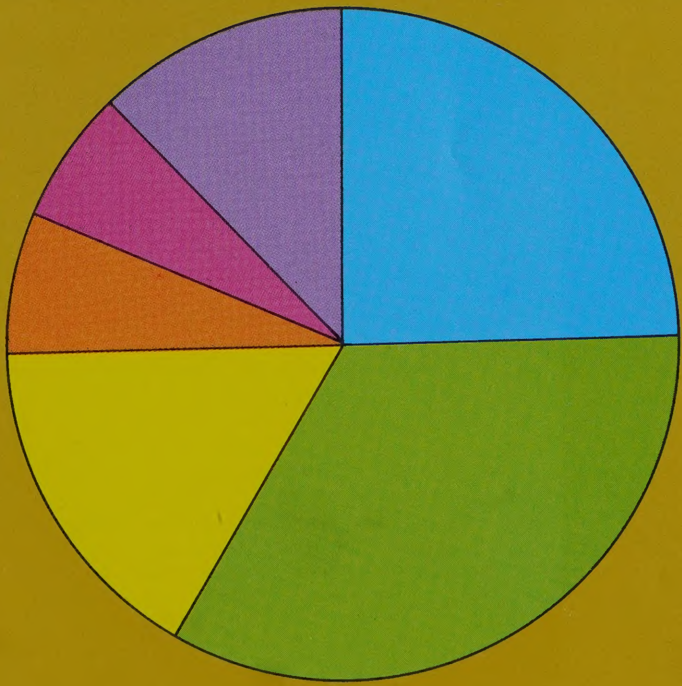
J. N. Kendall

Jeremy N. Kendall
President

June 28, 1974

Shareholdings in Venturetek International Limited
(on a fully diluted basis as at April 30, 1974)

Management:	**24.4%**
Canada Development Corporation:	**33.4%**
Canadian Institutions:	**17.0%**
Other Directors:	**7.3%**
Foreign Institutions:	**6.4%**
Others:	**11.5%**



Venturetek International Limited

Investments

Conat Industries Limited/General Computer Systems Inc./Gestalt International Limited/Hermes Electronics Limited/PoP Shoppes International Inc./Ventek Computer Systems Ltd.

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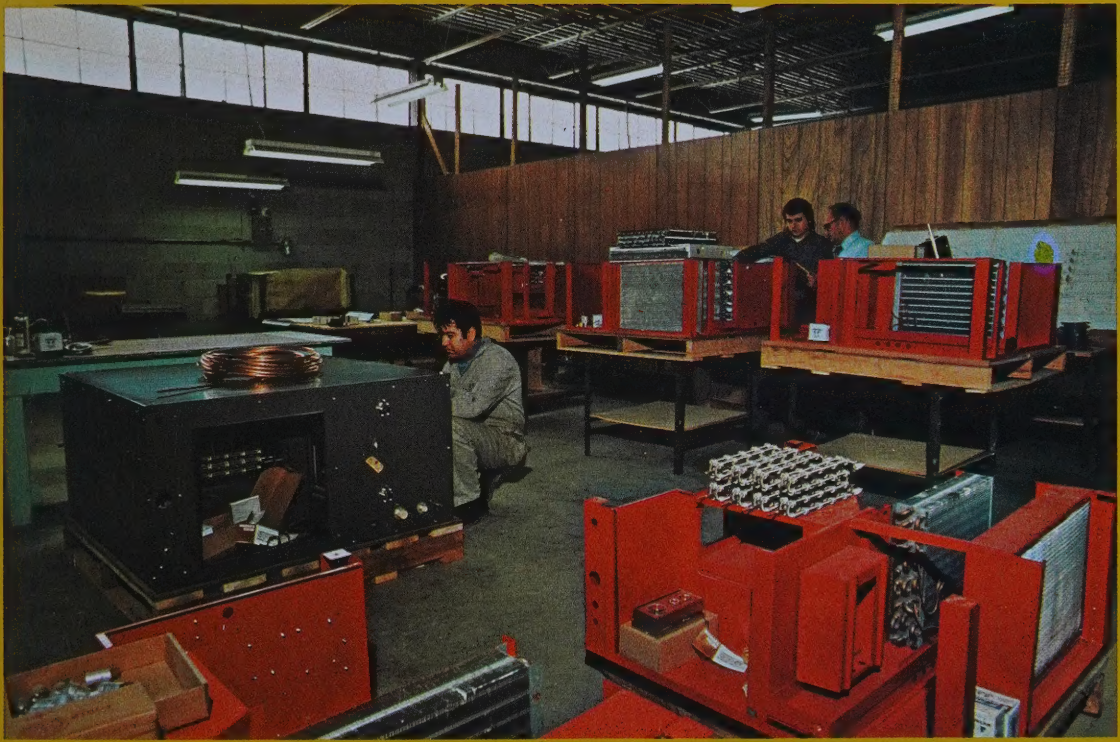
Conat's blue flame oil combustion system reduces oxides of nitrogen levels and produces substantial fuel economy.

Assembling Envirotron system at the Conat plant in Toronto.



Conat Industries Limited, Toronto

has developed a new blue flame oil combustion system producing a 15% economy in fuel and a 90% reduction in oxides of nitrogen levels. It is free from smoke, carbon monoxide and carbon deposits.

Through a subsidiary, *Envirotron Sales Limited,* Conat also manufacturers and markets Envirotron, a patented, electrically powered system providing homes and commercial buildings with heating, air conditioning, humidity control and electrostatic air cleaning in one compact central unit. Sales are forecast to increase to $1.7 million in 1974 from $66,000 in 1973.

General Computer Systems, Inc., Dallas, Texas

GCS manufactures data entry systems for the data processing industry in the U.S. and markets through its own end-user sales organization in the U.S. and through distributors in the U.K., France, Australia and Japan. The company's time-shared, key-to-disc system has the capability of replacing many of the standard key punches and other input devices currently on the market. Sales for 1974 are forecast at $16 million.

GCS equipment at the company's Dallas, Texas plant.

Gestalt International's unique GPM automates production of orthophotos; this one shows a section of Vancouver.

Planes, like this Gates Lear Jet fly over one million miles annually for Northway and Survair.

Gestalt International Limited, Vancouver, B.C.

Gestalt International Limited (formerly Hobrough Limited) has developed a new mapping instrument – the Gestalt Photo Mapper (GPM). Patented worldwide, the GPM automates the production of orthophotos at great economies over previous systems by a high-speed, computerized process.

An increasing share of the estimated $1 billion world market for photogrammetric surveying and mapping is becoming orthophoto based. Gestalt International markets its services through its own service centers and in joint ventures in the U.S. with Teledyne Geotronics and in the U.K. with The Plessey Company Limited.

With the recent acquisition of *Northway Survey Corporation Limited,* Toronto, and *Survair Limited,* Ottawa, Gestalt International has also become the largest Canadian firm engaged in aerial mapping and geophysical exploration. Sales are forecast to increase to over $7 million in 1974 from $500,000 in 1973.

The Gestalt Photo Mapper (GPM) offers greater speed and economy, places Gestalt International in the forefront of mapping technology.

Sonobuoys – major Hermes product – at Dartmouth plant.

Launching a deep sea ocean buoy, another product developed through Hermes technology.

Hermes Electronics Limited, Dartmouth, N.S.

is Canada's largest manufacturer of underwater oceanographic equipment, ionospheric sounding equipment and high frequency antenna systems.

The company's major products are sonobuoys, used for submarine detection. It also produces deep sea buoys and was first in the world to automatically moor two-stage buoy systems in up to 22,000 feet of water.

Hermes has also developed a sounding system which employs high frequency loop antennae to permit short and long haul communications via the ionosphere.

Sales are forecast at $14 million in 1974, up from $3 million in 1970. More than 85 percent of Hermes Electronics' products are exported. Eighty of the company's 550 employees are engaged in ongoing research and development.

High frequency loop antennae manufactured by Hermes are seen at an antenna farm.

Outstanding growth of The PoP Shoppe concept has been helped by striking exterior design of stores.

By end of 1974 The PoP Shoppe sales in North America are expected to reach equivalent of 500 million 8-oz. bottles.

PoP Shoppes International Inc., Toronto

has developed and successfully marketed under its trademark "The PoP Shoppe" a new approach to the bottling and merchandising of soft drinks.

By selling in case lots directly from factory to consumer on a cash and carry basis, the method eliminates many of the high costs of traditional distribution, at great savings to the consumer.

The PoP Shoppe now operates coast to coast in Canada and has spread into the U.S. Product is marketed through 10 company-owned and 14 licensed, factory stores – and over 100 satellite stores. Fourteen more factory stores will open by the end of 1974 and North American retail sales are expected to reach $20 million.

The PoP Shoppe also controls *Kist Canada Limited,* Stratford, Ontario, one of the country's largest producers of concentrated flavours for the soft drink, ice cream and dairy industries.

Kist Canada Limited, flavour specialist, provides quality flavors for The PoP Shoppe products.

More than 800 of Ventek's small-scale data processing and computer terminal systems have been installed to date.

Ventek is installing a $10½ million computer system to link British Rail's freight yards throughout U.K.

Ventek Computer Systems Limited, Toronto

is the holding company for *Ventek Limited*, London, England and *Interail Incorporated*, San Francisco.

During the past five years *Ventek Limited* has achieved a great success as an integrated computer systems company, supplying small-scale data processing and computer terminal systems to industry and government in the United Kingdom. To date, more than 800 systems have been supplied and sales are forecast to exceed $8 million in 1974 from $2.8 million in 1973. Ventek Limited has a $10½ million contract with British Rail to install a computer system linking freight yards throughout the U.K., and recently won a multi-million dollar contract from Ford of Europe.

Interail was formed in 1973 to market to railways in the U.S., a computer system similar to that designed and developed for British Rail. Interail is 70% owned by Ventek Computer Systems Limited and 30% by a subsidiary of Southern Pacific Railway Inc.

Data processing room supplied by Ventek for the U.K.'s Laing Construction.

Venturetek International Limited
and its subsidiary companies

Assets

	December 31, 1973 $	March 31, 1973 $
Current Assets		
Cash and short-term deposits	**—**	1,805,170
Accounts receivable	**3,298,842**	1,734,748
Inventories (note 2)	**6,523,093**	2,970,711
Investment in property and equipment held for resale — at cost (note 3)	**1,131,066**	—
Prepaid expenses	**279,365**	203,802
Due from shareholders	**214,120**	59,351
	11,446,486	6,773,782
Investments		
Investments in effectively controlled company - on the equity basis (note 1)	**951,398**	815,856
Other shares - at cost	**295,050**	186,156
	1,246,448	1,002,012
Fixed Assets (less accumulated depreciation of $746,743; March 31, 1973 - $538,814) (note 4)	**3,479,233**	2,309,857
Other Assets (note 5)	**2,557,876**	1,349,872
Excess of Cost of Shares of Subsidiary Companies Over Underlying Book Value at Dates of Acquisition (note 1)	**4,053,122**	2,940,870
	10,090,231	6,600,599
	22,783,165	14,376,393

Signed on behalf of the Board

D. C. Morrison, *Director*

J. N. Kendall, *Director*

Consolidated Balance Sheet
as at December 31, 1973

		December 31, 1973 $	March 31, 1973 $
Liabilities	**Current Liabilities**		
	Bank indebtedness (note 6)	**4,036,258**	1,274,373
	Accounts payable	**3,476,509**	1,739,185
	Due on purchase of subsidiary company	**—**	998,012
	Deferred income tax	**465,783**	176,950
	Current portion of long-term debt	**961,942**	454,775
		8,940,492	4,643,295
	Long-Term Debt, less current portion (note 7)	**4,459,611**	3,162,587
	Deferred Income Tax	**490,101**	146,900
	Minority Interest (note 8(a))	**850,335**	388,469
		5,800,047	3,697,956
		14,740,539	8,341,251
Shareholders' Equity	**Capital Stock** (note 9)		
	Authorized -		
	34,504 7¾ % non-cumulative preference shares, redeemable at the par value of $10 each		
	2,000,000 common shares of no par value		
	Issued and fully paid -		
	1,358,991 common shares (at March 31, 1973 - 1,281,991)	**9,598,288**	8,635,128
	Excess of Appraised Value of Fixed Assets Over Depreciated Cost (note 10)	**537,366**	556,090
	Contributed Surplus (note 11)	**845,505**	3,571
		10,981,159	9,194,789
	Deficit	**2,938,533**	3,159,647
		8,042,626	6,035,142
		22,783,165	14,376,393

Venturetek International Limited
and its subsidiary companies

Consolidated Statement of Deficit
for the nine months ended December 31, 1973

	For nine months ended December 31, 1973 $	For year ended March 31, 1973 $
Deficit - Beginning of Period	**3,159,647**	1,301,190
Net earnings (loss) for the period	**202,390**	(1,858,457)
Amortization of appraisal credit (note 10)	**18,724**	—
Deficit - End of Period	**2,938,533**	3,159,647

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Venturetek International Limited and subsidiaries as at December 31, 1973 and the consolidated statements of earnings, deficit and changes in financial position for the nine months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For the company accounted for by the equity method in these financial statements we have relied on the report of the auditors who have examined their financial statements.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the nine months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants
Toronto, Canada

March 15, 1974
(except for note 15 which is dated May 1, 1974)

Venturetek International Limited
and its subsidiary companies

Consolidated Statement of Earnings
for the nine months ended December 31, 1973

	For nine months ended December 31, 1973 (note 16) $	For year ended March 31 1973 $
Sales	**17,838,582**	10,493,242
Cost of Sales	**12,172,359**	8,510,405
	5,666,223	1,982,837
Expenses		
General and administrative	**3,806,010**	2,251,987
Depreciation and amortization	**738,084**	756,785
Interest on long-term debt	**215,074**	198,416
	4,759,168	3,207,188
Earnings (Loss) from Operations Before Provision for Income Taxes	**907,055**	(1,224,351)
Provision for Income Taxes		
Current	**16,730**	88,620
Deferred	**598,617**	123,913
	615,347	212,533
Earnings (Loss) from Operations	**291,708**	(1,436,884)
Share of Loss of Effectively Controlled Company	**(118,746)**	(62,594)
Earnings (Loss) Before Minority Interest and Extraordinary Items	**172,962**	(1,499,478)
Minority Interest in (Earnings) Loss	**(64,061)**	494,197
Losses Attributable to Minority Interest in Excess of Paid-up Capital (note 8(b))	**(18,591)**	(254,906)
Earnings (Loss) Before Extraordinary Items	**90,310**	(1,260,187)
Extraordinary Items (note 12)	**112,080**	(598,270)
Earnings (Loss) for the Period	**202,390**	(1,858,457)

Venturetek International Limited

and its subsidiary companies

Consolidated Statement of Changes in Financial Position

for the nine months ended December 31, 1973

	For nine months ended December 31, 1973 $	For year ended March 31, 1973 $
Financial Resources Provided by		
Earnings (loss) for the period	**202,390**	(1,858,457)
Items not affecting working capital –		
Depreciation and amortization	**738,084**	756,785
Deferred income taxes	**343,201**	121,441
Share of loss of effectively controlled company	**118,746**	62,594
Minority interest in (earnings) loss	**(64,061)**	494,197
Losses attributable to minority interest in excess of paid-up capital	**18,591**	254,906
Working capital provided from operations	**1,356,951**	(168,534)
Issue of common shares	**963,160**	5,723,864
Increase in long-term debt	**1,905,376**	1,138,196
Minority interest in assets of subsidiaries	**507,336**	95,672
Contributed surplus	**841,934**	—
Proceeds on sale of fixed assets	**—**	118,087
Government grants	**—**	119,114
	5,574,757	7,026,399
Financial Resources Used for		
Purchase of fixed assets	**1,907,460**	1,135,327
Excess of cost of shares of subsidiaries over underlying book value at dates of acquisition	**1,112,252**	2,220,428
Investment in effectively controlled company	**254,288**	319,421
Investment in other shares	**108,894**	—
Deferred costs	**470,011**	434,917
Purchases of other assets	**737,993**	13,663
Repayment of secured debentures	**369,320**	117,907
Repayment of notes payable	**239,032**	—
Redemption of preferred shares	**—**	154,960
	5,199,250	4,396,623
Increase in Working Capital	**375,507**	2,629,776
Working Capital (Deficiency) – Beginning of Period	**2,130,487**	(499,289)
Working Capital – End of Period	**2,505,994**	2,130,487

Venturetek International Limited

and its subsidiary companies

Notes to Consolidated Financial Statements

for the nine months ended December 31, 1973

1. Significant Accounting Policies

(a) Principles of consolidation

These financial statements include the accounts of Venturetek International Limited and its subsidiary companies. During the year the company's fiscal year end was changed from March 31 to December 31 in order to conform with the year end of the majority of its subsidiary companies.

Subsidiaries	Ownership at year end	Period consolidated
Conat Industries Limited and its wholly-owned subsidiary Envirotron Sales Limited	60%	Nine months ended December 31, 1973
Fueltek Inc. (acquired during the year for $50,000 in cash)	75%	Four months since incorporation to December 31, 1973
Hermes Electronics Limited and its subsidiary companies	67%	Year ended December 31, 1973
McLarty Holdings Limited	60%	Year ended December 31, 1973
PoP Shoppes International Inc. and its subsidiary companies	77%	Year ended January 31, 1974
Ventek Computer Systems Limited and its 90% owned subsidiary Ventek Limited and its 70% owned subsidiary Interail Incorporated	99.5%	Year ended December 31, 1973 (Ventek Limited for the nine months ended December 31, 1973)

The purchase method of accounting for business acquisitions has been followed in the preparation of the consolidated financial statements, which include the assets and liabilities of all subsidiary companies. Earnings of each subsidiary company have been included in the consolidated statement of earnings from the effective date of acquisition.

During the year the company's subsidiary PoP Shoppes International Inc. acquired a subsidiary company for the consideration of $400,166 in cash and the issue of $600,000 in treasury shares, being $801,793 in excess of the book value of the net assets acquired.

(b) Investment in effectively controlled company

These financial statements include the investment in an effectively controlled company, Hobrough Limited (27%), accounted for on the equity basis. The company's share of losses for the current period (year ended December 31, 1973) is $118,746. On the equity basis the company's investment in Hobrough Limited has been reduced by $294,519, which is the company's share of accumulated losses since effective control. The excess of the cost of the company's investment in Hobrough Limited over the underlying book value at date of acquisition is $750,550.

(c) Foreign currency translation

The accounts of Ventek Limited, a 90% owned United Kingdom subsidiary of Ventek Computer Systems Limited, have been converted as follows:

Current items — Year end rate
Other items — Historical rate
Earnings for period — Average rate for period

The company is of the opinion that due to the long-term nature of its investments it was preferable to defer rather than recognize the loss of $35,853 on conversion of the accounts of Ventek Limited, a United Kingdom subsidiary of Ventek Computer Systems Limited.

(d) The excess of cost of subsidiary company shares over underlying book values at dates of acquisition will not be amortized unless their value becomes impaired.

2. Inventories

The company's inventory is comprised of the following:

	December 31, 1973 $	March 31, 1973 $
Raw materials – at cost	**199,573**	340,616
Finished goods – at lower of cost and net realizable value	**2,131,150**	1,155,861
Contracts in progress – at percentage of completion	**1,315,368**	506,791
Containers – at cost, less allowance for breakage	**2,877,002**	967,443
	6,523,093	2,970,711

3. Investment in Property and Equipment Held for Resale

On March 8, 1974 an offer was accepted to sell substantially the entire assets of the California bottling operation of PoP Shoppes International Inc. for the sum of $1,181,007. These assets are classified on the balance sheet as "Investment in property and equipment held for resale".

Venturetek International Limited

and its subsidiary companies

Notes to Consolidated Financial Statements

for the nine months ended December 31, 1973

4. Fixed Assets

The company's fixed assets are comprised of the following:

	Cost or appraised value (note 10) $	Accumulated depreciation $	Net $	March 31, 1973 $
Land	450,788	–	450,788	200,741
Buildings	1,863,584	148,634	1,714,950	1,232,106
Production equipment	1,790,458	580,136	1,210,322	843,920
Furniture and fixtures	121,146	17,973	103,173	33,090
	4,225,976	746,743	3,479,233	2,309,857

5. Other Assets

The company's other assets are comprised of the following:

	December 31, 1973 $	March 31, 1973 $
Notes and advances receivable	**301,746**	191,250
Deferred development costs	**1,268,139**	798,128
Patents and trademarks – at cost	**92,633**	57,994
Licence fees receivable	**152,200**	302,500
Due from stock purchase scheme trustees (note 13)	**743,158**	–
	2,557,876	1,349,872

The deferred development cost of $1,268,139 will be amortized as follows:

	$
Over the estimated period during which revenues are expected to arise from related products	671,536
Straight line over 5 years	355,853
Straight line over 3 years	240,750
	1,268,139

Amortization expense of the deferred development cost during the period amounted to $421,970 (March 31, 1973 – $499,924).

6. Bank Indebtedness

Bank indebtedness of $477,659 of certain subsidiary companies is secured by assignments of their book debts and inventories, as well as the shares of a subsidiary of PoP Shoppes International Inc.

7. Long-Term Debt

(a) The company's long-term debt is comprised of the following:

	$
Notes payable to shareholders	193,573
Convertible debentures of a subsidiary company	152,086
Secured debentures of a subsidiary company	1,086,411
Refundable deposits	952,795
Loans and advances	2,658,827
Deferred revenue	377,861
	5,421,553
Less: Current portion	961,942
	4,459,611

(b) Notes payable to shareholders of $142,322 are non-interest bearing, and payable in monthly instalments based on a formula related to product sales of certain subsidiary companies of PoP Shoppes International Inc. The notes mature on August 31, 1977. The estimated current portion of $106,000 is included in current liabilities. The balance of notes payable to shareholders are at ½% above prime with no fixed maturity date.

The loans and advances of $1,081,066 bear interest at 1½% above prime. The remainder are at an approximate average rate of 10¾%.

The convertible debentures of a subsidiary company are without interest and are redeemable for their principal amount at any time prior to August 1974 at the option of the subsidiary company; if not redeemed they will be converted into 329,432 common shares of the subsidiary company.

The secured debentures (with interest rates at rates ranging from 7½% to 10%) are due April 1985 and are secured by a floating charge on the fixed assets of a subsidiary company.

Notes to Consolidated Financial Statements

for the nine months ended December 31, 1973

(c) Long-term debt is repayable as follows:

Year	Convertible debentures $	Secured debentures $	Loans and advances $
1974	28,298	83,463	744,181
1975	123,788	90,140	1,370,973
1976	–	97,351	136,760
1977	–	105,139	101,760
1978	–	113,551	89,760
1979 and subsequent	–	596,767	215,393
	152,086	1,086,411	2,658,827

8. Minority Interest

(a) Minority interest is made up of:

	December 31, 1973 $	March 31, 1973 $
Preferred interest	**283,000**	292,797
Common interest	**567,335**	95,672
	850,335	388,469

(b) Losses attributable to minority interest in excess of paid-up capital –

$18,591 of minority interest in losses of subsidiaries in excess of their portion of paid-up capital for the period ended December 31, 1973 have been included in the results of operations (cumulative to date $344,689). Minority interest in future earnings of these subsidiaries will be attributed to the company to the extent of $344,689.

9. Capital Stock

(a) Share capital –

Common shares issued during the year were as follows:

	Number of shares	**Consideration $**
Shares for cash	32,500	474,300
Shares on exercise of share warrants	44,500	488,860
	77,000	963,160

(b) Warrants –

There are 141,000 warrants outstanding (none of which have been subsequently exercised), each of which entitles the holder to purchase one common share of the company as follows:

(i) 61,500 shares at $7.00 per share exercisable to October 22, 1976.

(ii) 77,500 shares at $5.00 per share exercisable to December 31, 1975

(iii) 2,000 shares at $9.00 per share exercisable:
from January 1, 1974 to December 31, 1975 – 1,200 shares
from January 1, 1975 to December 31, 1975 – 800 shares

10. Excess of Appraised Value of Fixed Assets Over Depreciated Cost

Values determined by an appraisal of land and buildings at the company's Dartmouth electronics plant on April 12, 1973 by DeWolf Real Estate were $556,090 in excess of their book value of $484,346. The credit arising on appraisal is being transferred to retained earnings as it is effectively realized through depreciation charges to operations at the rate of $18,724 annually.

11. Contributed Surplus

During the year a subsidiary company, PoP Shoppes International Inc., issued shares at a price in excess of the net book value per share prior to such issue, to minority shareholders. In accordance with recent draft recommendations of the Canadian Institute of Chartered Accountants the accounting for this transaction resulted in a credit to contributed surplus of $841,934.

12. Extraordinary Items

	December 31, 1973 $	March 31, 1973 $
Gain on sale of patents and trademarks (net)	**61,300**	–
Gain on sale of investments	**50,780**	–
Reduction of income taxes on application of losses in prior years	–	79,694
Gain on sale of subsidiary share rights	–	65,500
Loss on discontinuance of product lines	–	(743,464)
	112,080	(598,270)

13. Due from Shareholders Under Stock Purchase Scheme

The company has a stock purchase plan for certain of its senior officers. Under this plan, the company has advanced, by way of a loan without interest to trustees, $743,158 to enable the trustees to purchase on behalf of members of the plan common shares at the estimated market value on December 31, 1973. The purchase price to each member is the purchase price to the trustee. The obligation of the members to pay such price is evidenced by promissory notes which are repayable in instalments.

Venturetek International Limited

and its subsidiary companies

Notes to Consolidated Financial Statements

for the nine months ended December 31, 1973

14. Contingent Liabilities at December 31, 1973

(a) The company has annual gross rental commitments of $28,760 to November 30, 1978.

(b) The company has guaranteed certain obligations of its effectively controlled company, Hobrough Limited, in the amount of $800,000.

(c) Government assistance has been received which may be repayable under certain general and certain specific conditions. Grants received relating to development of specific projects require repayment upon failure to advance diligently those projects for marketing.

15. Events Subsequent to December 31, 1973

Subsequent to December 31, 1973 the company increased its ownership in Conat Industries Limited to 77.8% on the purchase of an additional 200,000 common shares for $350,000 and increased its ownership in Hermes Electronics Limited to 74.6% by acquiring 301,016 common shares on conversion of debentures in the amount of $255,864.

In addition, the company increased its ownership in Hobrough Limited to 30.1% on the purchase of 150,300 common shares for $199,845.

16. Operating Results for the Comparative Nine Months to December 31, 1972

The following unaudited figures have been developed by prorating the results of operations to provide estimated comparative figures for the same nine month period ended December 31, 1972.

	$
Sales	10,285,000
Cost of sales	8,343,000
	1,942,000
General and administrative expenses	1,970,000
Depreciation and amortization	692,000
Long-term interest expense	193,000
	2,855,000
Operating loss for the period	913,000
Provision for income taxes	210,000
Loss for period	1,123,000
Share of losses of effectively controlled company	70,000
Minority interest in losses for the period	(451,000)
Absorbed losses in excess of paid-in capital	230,000
	(151,000)
Loss for period before extraordinary items	972,000
Extraordinary items	600,000
Loss for period	1,572,000

17. Executive Remuneration

During the period remuneration of the company's directors and senior officers as defined by the Business Corporations Act amounted to $107,500 (March 31, 1973 – $83,650). No remuneration was paid to directors as directors.